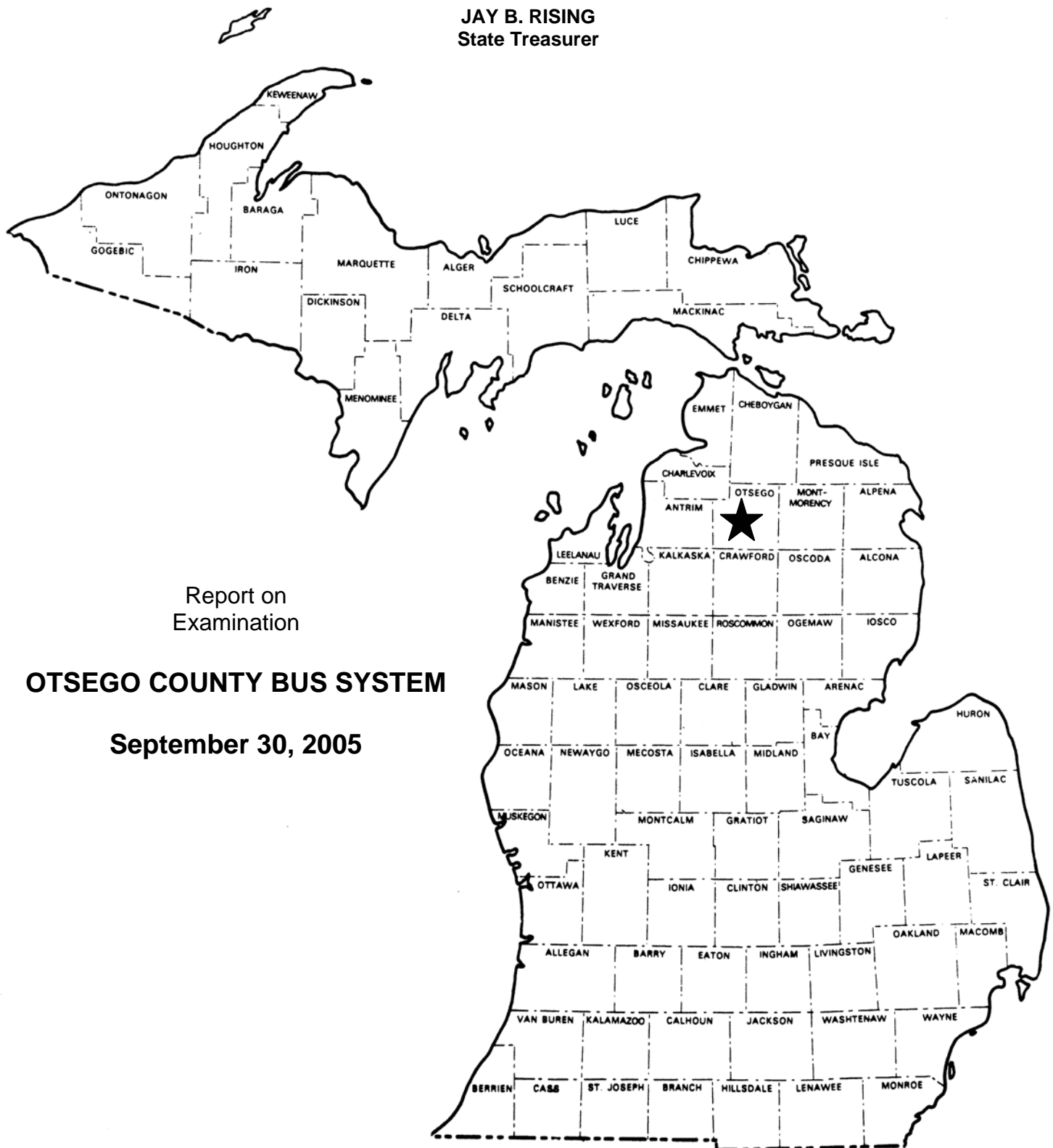


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY

JAY B. RISING
State Treasurer



Report on
Examination

OTSEGO COUNTY BUS SYSTEM

September 30, 2005

Local Audit and Finance Division
Bureau of Local Government Services



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 1, 2005

Otsego County Bus System Committee
Otsego County Board of Commissioners
County Courthouse
225 West Main Street
Gaylord, Michigan 49735

RE: Unqualified Opinions on Basic Financial Statements and Supplementary
Schedule of Expenditures of Federal and State Awards--Governmental Entity

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying basic financial statements of the Otsego County Bus System, a component unit of Otsego County, Michigan, as of and for the year ended September 30, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Bus System's management. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Otsego County Bus System as of September 30, 2005, and the changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 1, 2005 on our consideration of the Otsego County Bus System's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in

accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Otsego County Bus System, taken as a whole. The accompanying Schedules 1 and 2 are presented for the purposes of additional analysis and are not a required part of the financial statements of the Otsego County Bus System. The accompanying Schedule of Expenditures of Federal and State Awards is presented for purposes of additional analysis and is not a required part of the financial statements. Such information, except for that portion marked "unaudited," (Schedule 3) on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OTSEGO COUNTY BUS SYSTEM

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OTSEGO COUNTY BUS SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

Our discussion and analysis of the Otsego County Bus System's financial performance provides an overview of the Bus System's financial activities for the fiscal year ended September 30, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Bus System and present a longer-term view of the Bus System's finances.

Overview of the Financial Statements

This annual report consists of three parts--Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Bus System:

- The first two statements are financial statements that provide both long-term and short-term information about the Bus System's overall financial status. These statements report information about the Bus System, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Bus System's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Bus System's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Bus System's financial health or position.
- The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Bus System as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Bus System as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Change in Net Assets report information about the Bus System, as a whole, and about its activities in a way that helps answer the question of whether the Bus System, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Bus System's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received or paid.

OTSEGO COUNTY BUS SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Bus System's net assets and how they have changed. The reader can think of the Bus System's net assets (the difference between assets and liabilities) as one way to measure the Bus System's financial health or financial position. Over time, increases or decreases in the Bus System's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Bus System you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Bus System's buses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Bus System as a Whole

The Bus System's net assets increased approximately 1%, or \$6,088, from \$1,022,129 to \$1,035,236 for the year ended September 30, 2005. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position has stayed the same in 2005. The unrestricted net assets decreased by \$18,277 and the investment in capital assets increased by \$31,384 during 2005. The primary reason for the decline in the unrestricted was the increase in fuel costs; and an increase in invested in capital assets was due to the purchase of two new buses.

The net assets as of year ended September 30, 2005, are as follows:

	<u>2004</u>	<u>2005</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 266,238	\$ 199,503	\$ (66,735)	-25.07%
Capital Assets	<u>1,170,172</u>	<u>1,128,259</u>	<u>(41,913)</u>	<u>-3.58%</u>
Total Assets	<u>1,436,410</u>	<u>1,327,762</u>	<u>(108,648)</u>	<u>-7.56%</u>
Current Liabilities	164,281	115,822	(48,459)	-29.50%
Noncurrent Liabilities	<u>250,000</u>	<u>176,704</u>	<u>(73,296)</u>	<u>-29.32%</u>
Total Liabilities	<u>414,281</u>	<u>292,526</u>	<u>(121,755)</u>	<u>-29.39%</u>
Net Assets				
Invested in Capital Assets	920,171	951,555	31,384	3.41%
Unrestricted	<u>101,958</u>	<u>83,681</u>	<u>(18,277)</u>	<u>-17.93%</u>
Total Net Assets	<u>\$ 1,022,129</u>	<u>\$ 1,035,236</u>	<u>\$ 13,107</u>	<u>1.28%</u>

OTSEGO COUNTY BUS SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

	2004	2005	Variance	%
Operating Revenue				
Charges for Services	\$ 279,327	\$ 349,492	\$ 70,165	25.12%
Nonoperating Revenue				
Taxes Levied for Transit	237,657	265,840	28,183	11.86%
State of Michigan Operating Grants	625,911	596,788	(29,123)	-4.65%
Federal Operating Grants	84,086	193,826	109,740	130.51%
Interest Earned	1,246	2,962	1,716	137.72%
Motor Pool	17,136	8,476	(8,660)	-50.54%
Nontransportation Revenue	5,170	4,865	(305)	-5.90%
Building Rental	71,000	78,000	7,000	9.86%
Reimbursements	2,090		(2,090)	100.00%
Contributed Services		18,263	18,263	100.00%
Subsidies From Other Sectors	511,824	505,205	(6,619)	-1.29%
Total Revenue	<u>1,835,447</u>	<u>2,023,717</u>	<u>188,270</u>	<u>10.26%</u>
Operating Expense				
Salaries and Wages	1,540,545	1,571,917	31,372	2.04%
Depreciation	192,507	205,285	12,778	6.64%
Other	447,161	470,076	22,915	5.12%
Total Operating Expense	<u>2,180,213</u>	<u>2,247,278</u>	<u>67,065</u>	<u>3.08%</u>
Income (Loss) Before Contributions	(344,766)	(223,561)	121,205	-35.16%
Capital Contributions		236,668	236,668	-100.00%
Increase (Decrease) in Net Assets	<u>(344,766)</u>	<u>13,107</u>	<u>357,873</u>	<u>-103.80%</u>
Ending Net Assets	<u>\$ 1,022,129</u>	<u>\$ 1,035,236</u>	<u>\$ 13,107</u>	<u>1.28%</u>

Budgetary Highlights

Prior to the beginning of any year, the Bus System's budget is compiled based upon certain assumptions and facts available at that time. The final budget for 2005 was \$1,548,500. The expenses exceeded the budget this year due to increased fuel costs, administrative fees, labor, and increasing health care premiums.

OTSEGO COUNTY BUS SYSTEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

At September 30, 2005, the Bus System had \$1,128,259 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$41,914 or 3.58% as follows:

	2004	2005	Total Percentage Change 2004-2005
Capital Assets Not Being Depreciated			
Land	\$ 99,998	\$ 99,998	0.00%
Subtotal	99,998	99,998	0.00%
Capital Assets Being Depreciated			
Building	760,033	760,033	0.00%
Vehicles	1,109,514	1,272,886	14.72%
Equipment	372,080	200,018	-46.24%
Subtotal	2,241,627	2,232,937	-0.39%
Total Capital Assets	2,341,625	2,332,935	-0.37%
Total Accumulated Depreciation	1,171,453	1,204,676	2.84%
Total Net Capital Assets	<u>\$ 1,170,172</u>	<u>\$ 1,128,259</u>	<u>-3.58%</u>

Please refer to the notes to the financial statements for more detailed information.

Economic Factors and Next Year's Budget

The 2006 budget will increase to \$1,743,585 due to increases in administrative costs, fuel costs and fringe benefit programs that continue to drive up the cost of doing business. To offset the increasing costs, the Bus System will implement a 4% increase to school contracts, Crossroad Industries, and the Meals on Wheels program and the fares will also be increased.

Contacting the Transit System's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Transit System's finances and to show the accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Otsego County Bus System's Office at: 1254 Energy Drive, Gaylord, Michigan 49735.

OTSEGO COUNTY BUS SYSTEM
STATEMENT OF NET ASSETS
September 30, 2005

EXHIBIT A

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 51,761
Accounts Receivable	
Accounts Receivable--General	13,437
Due From Other Counties	42,343
Due From State	91,962
	<hr/>

Total Current Assets	<hr/> 199,503 <hr/>
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Noncurrent Assets

Capital Assets (Net of Accumulated Depreciation)	<hr/> 1,128,259 <hr/>
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Total Noncurrent Assets	<hr/> 1,128,259 <hr/>
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Total Assets	<hr/> <hr/> \$ 1,327,762 <hr/> <hr/>
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LIABILITIES

Current Liabilities

Accounts Payable	\$ 40,246
Accrued Payroll	59,172
Other Liabilities	16,404
	<hr/>

Total Current Liabilities	<hr/> 115,822 <hr/>
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Noncurrent Liabilities

Long-Term Advance From County	<hr/> 176,704 <hr/>
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Total Noncurrent Liabilities	<hr/> 176,704 <hr/>
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Total Liabilities	<hr/> 292,526 <hr/>
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NET ASSETS

Invested in Capital Assets--Net of Related Debt	951,555
Unrestricted	83,681
	<hr/>

Total Net Assets	<hr/> <hr/> \$ 1,035,236 <hr/> <hr/>
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The Notes to the Financial Statements are an integral part of this statement.

OTSEGO COUNTY BUS SYSTEM
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS
For the Year Ended September 30, 2005

EXHIBIT B

	Operating Fund
Operating Revenue	
Fares--Demand Response	\$ 97,066
Fares--Contractual	225,501
Freight Tariffs/Meals on Wheels	26,925
	<hr/>
Total Operating Revenue	349,492
	<hr/>
Operating Expense	
Salaries and Wages	1,571,917
Depreciation	205,285
Other	470,076
	<hr/>
Total Operating Expense	2,247,278
	<hr/>
Operating Income (Loss)	(1,897,786)
	<hr/>
Nonoperating Revenue	
Taxes Levied for Transit	265,840
State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	596,788
Federal Operating Grants	
USDOT Operating Grant (Section 5311)	189,585
Prior Years' Adjustments	149
Rural Transit Assistance Program	4,092
Interest Earned	2,962
Motor Pool	8,476
Nontransportation Revenue	4,865
Building Rental	78,000
Contributed Services	18,263
Subsidies From Other Sectors	505,205
	<hr/>
Total Nonoperating Revenue	1,674,225
	<hr/>
Income (Loss) Before Contributions	(223,561)
Capital Contributions	
State of Michigan Capital Grant	47,333
Federal Capital Grant	189,335
	<hr/>
Change in Net Assets	13,107
	<hr/>
Total Net Assets--October 1, 2004	1,022,129
	<hr/>
Total Net Assets--September 30, 2005	\$1,035,236
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

**OTSEGO COUNTY BUS SYSTEM
STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2005**

EXHIBIT C

Cash Flows From Operating Activities	
Cash Received From Customers	\$ 352,673
Cash Payments to Employees for Services and Benefits	(1,575,797)
Cash Payments to Suppliers for Goods and Services	<u>(514,655)</u>
Net Cash Provided by Operating Activities	<u>(1,737,779)</u>
Cash Flows From Noncapital Financing Activities	
Nontransportation Revenue	13,341
Subsidies From Other Sectors	552,187
State Grants	595,205
Federal Grants	179,307
State and Federal Grants--Prior Year Adjustments	149
Property Tax	265,840
Building Rental	78,000
Contributed Services	<u>18,263</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,702,292</u>
Cash Flows From Capital and Related Financing Activities	
Capital Assets Purchased With Transit Corporation Money	
Capital Assets Purchased With Capital Assistance	(163,372)
Long-Term Advance From County	(73,296)
Federal and State Capital Assistance	<u>236,668</u>
Net Cash Provided From Capital and Related Financing Activities	-
Cash Flows From Investing Activities	
Interest on Cash Equivalents	<u>2,962</u>
Net Cash Provided by Investing Activities	2,962
Net Increase in Cash and Cash Equivalents	(32,525)
Cash and Cash Equivalents at Beginning of the Year	<u>84,286</u>
Cash and Cash Equivalents at End of the Year	<u><u>\$ 51,761</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ (1,897,786)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities (Noncash Items)	
Depreciation Expense	205,285
(Increase) Decrease in Accounts Receivable	3,181
Increase (Decrease) in Accounts Payable	(44,579)
Increase (Decrease) in Other Accrued Liabilities	<u>(3,880)</u>
Net Cash Provided by Operating Activities	<u><u>\$ (1,737,779)</u></u>

The Notes to Financial Statements are an integral part of this statement.

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The purpose of the Otsego County Bus System Fund is to acquire, operate and manage a public transportation system within the boundaries of Otsego County.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, the financial statements of the Otsego County Bus System is a component unit of Otsego County. The Otsego County Bus System Fund is, for financial reporting purposes within generally accepted accounting principles, an enterprise fund of Otsego County.

The Otsego County Bus System is not legally separate but is administered by a three member standing committee of the county board of commissioners. The Bus System Committee may not issue debt and the tax levy is subject to county board of commissioner's approval. The Bus System taxes are levied under the taxing authority of the county, as approved by the county electors, and is included as part of the county's total tax levy as well as reported in the Bus System Fund.

The Otsego County Bus System is used to control the expenditures of Michigan Transportation Fund and Federal Transportation Fund moneys distributed to the county which are earmarked by law for transportation purposes. The county board of commissioners is responsible for the administration of the Otsego County Bus System.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial activities of the Bus System are recorded in an enterprise fund. This fund accounts for operations: (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Measurement Focus/Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary fund relates to charges to customers for providing busing services. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of the busing services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The government applies all applicable FASB pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements in accounting and reporting for its proprietary operations. The county has elected to consistently apply all applicable FASB pronouncements issued subsequent to November 30, 1989 in accounting and reporting for its proprietary operation.

When both restricted and unrestricted resources are available for use, it is the Bus System's policy to use restricted resources first, then unrestricted resources as needed.

Cash, Cash Equivalents and Investments

For purposes of the statements of cash flows, demand deposits and short-term investments with a maturity date of three months or less, when acquired, are considered to be cash equivalents. Investments are stated at fair value and short-term investments are reported at cost, which approximates fair value.

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the operating fund in the government-wide financial statements. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Provisions for depreciation of the capital assets are computed on the straight-line method. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Operating Facility	12 to 20 years
Vehicles	3 to 7 years
Shop Equipment	3 to 10 years
Office Equipment	6 to 10 years

OTSEGO COUNTY BUS SYSTEM
NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

The County Bus System's property tax is levied each December 1st based on the State taxable valuation of property located in the county as of the preceding December 31st. The Otsego County Bus System 2004 ad valorem tax was levied and collectible on December 1, 2004. It is the policy of Otsego County Bus System to recognize revenue from the current tax levy in the 2004/2005 fiscal year when the proceeds of this levy are budgeted and made available for the financing of the Bus System's operations.

The 2004 taxable valuation of Otsego County property amounted to \$1,083,027,404 on which ad valorem taxes of 0.2355 for the Bus System were levied in the amount of \$255,053 for the Bus System.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the following: assets and liabilities; disclosure of contingent assets and liabilities at the date of the financial statements; and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cost Allocations

The Bus System has cost allocation plans for all allocated expenses. All allocation plans are approved by the Michigan Department of Transportation, Bureau of Urban and Public Transportation. These expenses include amounts charged to the program for time spent by accounting personnel in maintaining financial records of the program.

Fiscal Year

The Otsego County Bus System operates on the fiscal year of the grantor, October 1 to September 30. The fiscal year differs from the December 31 fiscal year of the county.

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE C--CASH DEPOSITS

Deposits are carried at cost. Deposits of the Bus System Fund are at various banks in the name of the Otsego County Treasurer. Michigan Compiled Laws, Section 129.91 et al., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The county's deposits and investments are in accordance with State statutory authority. The balance sheet caption "Cash and Cash Equivalents" includes \$200 of imprest cash.

The risk disclosures for the Bus System deposits, as required by GASB Statement No. 40, are not available in that the Bus System's cash deposits are part of the county's common bank account. The Bus System would receive its proportional share of insurance coverage. The book balance of the Bus System Fund as of September 30, 2005 was \$51,761. The insurability of this amount in the county's common account is not determinable.

Investments Authorized by the County's Investment Policy

The county's investment policy authorizes investment in all those that are authorized by law. As stated above, the county did not have any investments in the fiscal year ended September 30, 2005.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The county's investment policy does not contain specific provisions to limit the county's exposure to credit risk.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The county's investment policy does not contain specific provisions to limit the county's exposure to interest rate risk.

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH DEPOSITS (Continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater. The county's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the county's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the county's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The county is not exposed to custodial credit risk for investments.

NOTE D--RECEIVABLES

The accounts receivable balance consists of contract fares, advertising, and regular fares in the amount of \$13,437 that were earned but not yet received at September 30, 2005.

The "Due from Other Counties" consists of the September charges for services to Cheboygan County in the amount of \$42,343.

The following amounts were due from the State at September 30, 2005:

Federal Section 5311 FY 2004 Operating	
Assistance Contract 02-0079Z9	\$ 9,618
Assistance Contract 02-0079Z15	42,415
State Operating Assistance 2004	38,346
State Operating Assistance 2005	<u>1,583</u>
Total Due From State	<u><u>\$ 91,962</u></u>

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE E--ADVANCE FROM COUNTY (PRIMARY GOVERNMENT)

During the year ending September 30, 2004, the county advanced the Bus System \$300,000 to assist in the acquisition of a new facility. The Bus System paid \$50,000 back to the county during the 2004 fiscal year reducing the balance to \$250,000. During the 2005 fiscal year, the Bus System received a grant for \$73,296 to reduce the balance to \$176,704. In the next fiscal year, the bus system has had grant revenue earmarked by the Michigan Department of Transportation to reduce the remaining balance due to the county.

Once this grant is received, the Bus System has agreed to begin paying the remaining balance to the county in monthly installments of \$1,000 at a 4% rate of interest.

NOTE F--CAPITAL ASSETS

Capital asset activity of the Bus System for the current year was as follows:

<u>Business-Type Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Not Being Depreciated				
Land	\$ 99,998			\$ 99,998
Subtotal	99,998	\$ -	\$ -	99,998
Capital Assets Being Depreciated				
Building	760,033			760,033
Vehicles	1,109,514	163,372		1,272,886
Equipment	372,080		172,062	200,018
Subtotal	2,241,627	163,372	172,062	2,232,937
Less Accumulated Depreciation for				
Building	42,224	38,002		80,226
Vehicles	885,534	141,427		1,026,961
Equipment	243,695	25,856	172,062	97,489
Subtotal	1,171,453	205,285	172,062	1,204,676
Net Capital Assets Being Depreciated	1,070,174	(41,913)	-	1,028,261
Total Capital Assets--Net of Depreciation	<u>\$1,170,172</u>	<u>\$ (41,913)</u>	<u>\$ -</u>	<u>\$1,128,259</u>

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE F--CAPITAL ASSETS (Continued)

	<u>Purchased With Bus System Funds</u>	<u>Purchased With Capital Grants</u>	<u>Total</u>
Building	\$ 500,088	\$259,945	\$ 760,033
Vehicles	172,075	937,439	1,109,514
Equipment	226,420	145,660	372,080
Land	73,337	26,661	99,998
Less: Accumulated Depreciation	<u>263,448</u>	<u>908,005</u>	<u>1,171,453</u>
Net Property and Equipment	<u><u>\$ 708,472</u></u>	<u><u>\$461,700</u></u>	<u><u>\$ 1,170,172</u></u>

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Otsego County Bus System's full-time employees participate in the employee retirement system of Otsego County. Otsego County is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The Bus System Fund employer contributions were made as actuarially determined in the December 31, 2002 evaluation, the most recent period for which actuarial data was available for the calendar year ended December 31, 2004. The annual actuarial report for the county is dated each year for the period December 31 and has no separate data for the Otsego County Bus System. Accordingly, there is no separate data to report here.

MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The members are not required to contribute to the plan. The Bus System's pension contributions of covered payroll for the period ending September 30, 2003, 2004 and 2005 was 7.18%, 7.18% and 7.18%, respectively, of covered wages.

If a member leaves the employ of the municipality or dies, without a retirement allowance or other benefit payable on his/her account, the member's accumulated contributions (with 5% interest) are refunded to the member, if living, or to the member's beneficiary.

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

Actuarial report contains information on the county as a whole. The most recent data available is as follows:

The county pays the Bus System's pension, during the calendar year ended December 31, 2003, the county's contributions totaled \$684,352; and during the calendar year ended December 31, 2004, the county's contributions totaled \$680,432. These contributions were made in accordance with the contribution requirement determined by an actuarial valuation of the plan as of December 31, 2001 and 2002, respectively. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended 12/31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2001	\$ 313,463	100%	\$0
2002	684,352	100%	\$0
2003	680,432	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/01	\$6,912,361	\$ 9,617,600	\$ 2,705,239	72%	\$4,903,398	55%
12/31/02	7,736,658	11,517,180	3,780,522	67%	5,382,956	70%
12/31/03	8,862,940	13,282,225	4,419,285	67%	5,579,432	79%

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE H--COMPENSATED ABSENCES

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available on the anniversary date of the employee.

Sick leave is earned at the beginning of the calendar year at a rate of 56 hours per full-time employee per year. Any unused sick leave is paid to the employee on the closest pay period to Christmas. There is no carry over of sick leave hours allowed.

Upon termination, an employee receives payment for the balance of any unused vacation leave which was credited on the employee's anniversary date. Employees can carry over a maximum of 40 hours of vacation leave to the next year. Unused sick leave is paid upon termination. Therefore, accumulated vacation and sick leave at September 30, 2005 will be paid from current financial resources and is not recorded as a long-term liability.

NOTE I--RISK MANAGEMENT

The Bus System is included with the county provisions for risk management. The following county provisions apply to the calendar year ended December 31, 2004.

The county is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance, and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation.

The county participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance, and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the General Fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions, as received by MMRMA, are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs, whereas resources in the member retention fund are used for loss payments and defense costs up to the member's self-insurance retention limits along with certain other member-specific costs.

OTSEGO COUNTY BUS SYSTEM

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

Accordingly, because contributions to the member retention fund are essentially recognized as revenue by MMRMA to the extent of expenditures, the government records an asset and a related liability, equal to the loss reserves estimated by MMRMA, for its portion of the unexpended member retention fund in the Trust and Agency Fund. At December 31, 2004, the balance of the county's member retention was \$172,088.

<u>Coverage</u>	<u>Self-Insured Retention</u>
Liability	\$75,000
Vehicle Physical Damage \$1,000 Member Deductible	\$15,000 Per Vehicle \$30,000 Per Occurrence
Property and Crime \$1,000 Deductible Per Occurrence	10% of the Next \$100,000
Employee Benefits--Commercial Insurance Provider	

Workers' Compensation

The county is a member of the Michigan Counties Workers' Compensation Fund. Full statutory coverage for workers' disability compensation and employers' liability is guaranteed by the fund for Michigan operations through authority granted by the State of Michigan under Chapter 6, Section 418.611, Paragraph (2) of the Workers' Disability Compensation Act of 1969, as amended.

At December 31, 2004, there were no claims which exceeded insurance coverage. The county had no significant reduction in insurance coverage from previous years.

OTSEGO COUNTY BUS SYSTEM
OPERATING EXPENSES
For the Year Ended September 30, 2005

SCHEDULE 1

	Operations	Maintenance	General Administration	Total System
Labor				
Operators' Salaries and Wages	\$ 723,843			\$ 723,843
Other Salaries and Wages	121,347	\$ 84,364	\$ 68,575	274,286
Fringe Benefits	465,241	39,462	69,085	573,788
Services	12,242	21,864	75,019	109,125
Materials and Supplies Consumed				
Fuel and Lubricants	184,642	983	26	185,651
Other Materials and Supplies	118,543	1,453	9,928	129,924
Utilities		132	45,964	46,096
Miscellaneous Expenses	2,788	758	6,457	10,003
Casualty and Liability Cost	(25,136)		4,953	(20,183)
Leases and Rentals		757	8,703	9,460
Depreciation	192,968	4,106	8,211	205,285
Total	\$ 1,796,478	\$ 153,879	\$ 296,921	\$ 2,247,278

OTSEGO COUNTY BUS SYSTEM
NET ELIGIBLE COST COMPUTATIONS
OF GENERAL OPERATIONS
For the Year Ended September 30, 2005

SCHEDULE 2A

	Federal Section 5311	State Operating Assistance
Operating Expenses		
Labor	\$ 998,129	\$ 998,129
Fringe Benefits	573,788	573,788
Services	109,125	109,125
Materials and Supplies	315,575	315,575
Utilities	46,096	46,096
Miscellaneous	10,003	10,003
Casualty and Liability Costs	(20,183)	(20,183)
Leases and Rental	9,460	9,460
Depreciation	205,285	205,285
Total Operating Expenses	<u>2,247,278</u>	<u>2,247,278</u>
Less: Ineligible Expenses		
Depreciation	133,612	133,612
Leases and Rentals	9,460	9,460
MPTA Dues	114	114
Straits Regional Ride (Schedule 2B)	520,164	520,164
Motor Pool Expenses	8,476	8,476
Audit	5,751	
Utilities Covered by Rental Income	18,438	18,438
In Kind Contribution Ineligible Expense	18,263	
Total Ineligible Expenses	<u>714,278</u>	<u>690,264</u>
Net Eligible Expenses	<u>1,533,000</u>	<u>1,557,014</u>
Less: Project Revenue		
RTAP Training Grant	<u>4,092</u>	<u>4,092</u>
Total Project Revenue	<u>4,092</u>	<u>4,092</u>
Net Deficit Federal Section 5311	<u>\$ 1,528,908</u>	
Section 5311 Reimbursement (12.4%)	<u>\$ 189,585</u>	
Net Eligible State Operating Assistance		<u>\$ 1,552,922</u>
State Operating Assistance (38.43%)		<u>\$ 596,788</u>

OTSEGO COUNTY BUS SYSTEM**SCHEDULE 2B****ANALYSIS OF AUDIT ADJUSTMENTS ON STRAITS RIDE INELIGIBLE EXPENSE****For the Year Ended September 30, 2005**

Otsego Bus Total Expenses Per Year End

Operating Assistance Report	\$ 2,041,993	80.17%	
Reported Ineligible Expenses for Straits Ride	<u>505,175</u>	<u>19.83%</u>	(a)
	<u>\$ 2,547,168</u>	<u>100.00%</u>	

	(b)		(c)=(b) x (a)	(b) + (c)
<u>Ineligible Operating Expenses for Straits Ride</u>	<u>Ineligible Expenses for Straits Ride</u>	<u>Total Audit Adjustments</u>	<u>Pro-rata Share related to Straits Ride</u>	<u>Ineligible Expenses for Straits Ride After Audit</u>
Operators Salaries and Wages	\$ 177,207	\$ 35,655	\$ 7,071	\$ 184,278
Other Salaries and Wages	45,673	7,128	1,414	47,087
Dispatcher Salaries and Wages	59,972	7,140	1,416	61,388
Other Fringe Benefits	89,944	25,653	5,088	95,032
Advertising Fees	254			254
Fuel and Lubricants	76,360			76,360
Tires and Tubes	12,366			12,366
Other Materials and Supplies	24,616			24,616
Premium for Public Liability	9,539			9,539
Leases and Rentals	<u>9,244</u>	<u></u>	<u></u>	<u>9,244</u>
	<u>\$ 505,175</u>	<u>\$ 75,576</u>	<u>\$ 14,989</u>	<u>\$ 520,164</u>

Adjustments totaling \$167,971 relating to depreciation and \$50,000 relating to the down payment of the new bus facility are excluded from this schedule as capital related expenses are not charged to the Straits Ride.

**OTSEGO COUNTY BUS SYSTEM
MILEAGE DATA--UNAUDITED
For the Year Ended September 30, 2005**

SCHEDULE 3

	<u>PUBLIC TRANSPORTATION MILEAGE</u>
<u>DEMAND RESPONSE</u>	
FIRST QUARTER	123,841
SECOND QUARTER	124,810
THIRD QUARTER	118,472
FOURTH QUARTER	<u>103,898</u>
TOTAL OPERATIONS	<u><u>471,021</u></u>

The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

OTSEGO COUNTY BUS SYSTEM
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (1) (2)
For the Year Ended September 30, 2005

SCHEDULE 4

	Federal CFDA Number	State Grantor Number	Program or Award Amount	Federal Receipts/ Revenue	State Receipts/ Revenue	Disbursements/ Expenditures
US Department of Transportation						
Passed Through Michigan Department of Transportation						
Capital Assistance--Section 5311	20.509	2002-0079-Z6	\$ 85,945	\$ 65,349	\$ 16,337	\$ 81,686
Capital Assistance--Section 5309	20.500	2002-0079-Z7	47,384	34,860	8,715	43,575
Capital Assistance--Section 5309	20.500	2002-0079-Z8	38,111	30,489	7,622	38,111
Capital Assistance--Section 5309	20.509	2002-0079-Z11	73,296	58,637	14,659	73,296
Total Capital Assistance				189,335	47,333	236,668
US Department of Transportation						
State and Federal Operating Assistance						
Computations Based on Operating Expenses						
Passed Through MDOT						
Operating Assistance--Section 5311	20.509	2002-0079-Z15	192,014	189,585		189,585
Rural Transit Assistance Program	20.509			4,092		4,092
Michigan Department of Transportation						
Operating Assistance--Act 51	N/A				596,788	596,788 (4)
Net Unreimbursed Eligible Operating Expenses						952,042
Total Operating Assistance				193,677	596,788	1,742,507
Total Capital and Operating Assistance				\$383,012	\$644,121	\$1,979,175

This schedule is prepared on an accrual basis of accounting as described in the summary of significant accounting policies in Note B of the Notes to Financial Statements.

OTSEGO COUNTY BUS SYSTEM
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AND STATE AWARDS

1. The accompanying Schedule of Expenditures of Federal and State Awards presents the activity of all Federal and State awards programs of the Otsego County Bus System. Federal and State awards received directly from Federal or State agencies, as well as Federal or State awards passed through other government agencies, are included on the schedule.
2. The accompanying Schedule of Expenditures of Federal and State Awards is presented using the accrual basis of accounting, which is described in Note B of the Bus System's basic financial statements.
3. Otsego County Bus System only recognized \$189,585 of the maximum Section 5311 Reimbursement of \$192,014 based on the net eligible costs computation presented as Schedule 2A.
4. State operating assistance of \$596,788 was recognized based on the net eligible costs computation presented as Schedule 2. The actual revenue to be received from the State is uncertain because the revenue is based on a fixed amount of statewide available funding. It could be as low as the Bus System's 1997 floor amount or as high as the statutory cap of 60% of eligible operating expenses. MDOT will recalculate the State operating assistance percentage in Schedule 2A, after audited close-outs, based on statewide eligible expenses.



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

JAY B. RISING
STATE TREASURER

December 1, 2005

Otsego County Bus System Committee
Otsego County Board of Commissioners
County Courthouse
225 West Main Street
Gaylord, Michigan 49735

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of the Otsego County Bus System, a component unit of Otsego County, as of and for the year ended September 30, 2005, and have issued our report thereon dated December 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered the Otsego County Bus System's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Otsego County Bus System's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations as finding 03-01 and 05-01.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above to be a material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether the Otsego County Bus System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the management, the board of commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

OTSEGO COUNTY BUS SYSTEM

COMMENTS AND RECOMMENDATIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect Otsego County Bus System's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is an internal control deficiency in which the design or operation of a component(s) of internal control does not reduce to a relatively low level the risk that a material misstatement may be contained in the financial statements.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

The Bus System is relatively small in size. Therefore, there is an overall lack of segregation of duties which should be considered when reviewing the weakness listed below. Segregation of duties requires that key duties and responsibilities be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event. Even though the Bus System is relatively small in size, they have incorporated compensating controls for the lack of segregation of duties in many areas.

MATERIAL WEAKNESSES

Balance Sheet Account Reconciliation

Finding 03-1

This is a repeat comment from the past four audits:

Condition: The Otsego County Bus System does not properly reconcile its balance sheet accounts including: accounts receivable, capital assets and accumulated depreciation, accrued wages, and compensated absences (accrued vacation).

Criteria: Generally Accepted Accounting Principles (GAAP) and the Michigan Department of Treasury require proprietary funds to be maintained on a full accrual basis and that all accounts be reconciled with their respective subsidiary ledgers. Accounts receivable, and the accrued wage liability should be recorded to properly match the fiscal year's revenues and expenses. Capital assets, accumulated depreciation, and depreciation expense should reconcile with an up to date capital asset listing. Finally, the compensated absence liability should reconcile to the employee's balance at the end of the fiscal year.

Cause and Effect: Failure to post complete accounting records on a timely basis may result in the following:

1. The financial condition of the Bus System may not be readily available.

OTSEGO COUNTY BUS SYSTEM

COMMENTS AND RECOMMENDATIONS

MATERIAL WEAKNESSES (CONTINUED)

2. The board may not be able to make sound business decisions because it has no financial data on which to make an evaluation.
3. The amounts reported on the Bus System's operating assistance report would be inaccurate affecting the amount of State and Federal aid received.

Recommendation: We recommend that the Bus System implement procedures to assure that all balance sheet accounts are properly reconciled on a monthly basis. This would ensure that errors are detected and corrected in a timely manner.

Cash Reconciliation

Finding 05-1

Condition: The Otsego County Bus System is not performing a cash reconciliation and the cash in the general ledger is not reconciled to the cash recorded on the county's general ledger.

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that "all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel." The Bus System's records must agree with or reconcile to the county treasurer's and the county's general ledger.

Recommendation: We recommend that the cash account be reconciled on a timely basis with the county's accounting records. The activity in the county's general ledger should reconcile to the Bus System's general ledger and provide a means to correct errors in posting.